savings association makes any significant change to its modeling assumptions.

(b) *Failure to comply with qualification requirements.* (1) If the OCC determines that a national bank or Federal savings association that uses this subpart and that has conducted a satisfactory parallel run fails to comply with the qualification requirements in § 3.122, the OCC will notify the national bank or Federal savings association in writing of the national bank's or Federal savings association's failure to comply.

(2) The national bank or Federal savings association must establish and submit a plan satisfactory to the OCC to return to compliance with the qualification requirements.

(3) In addition, if the OCC determines that the national bank's or Federal savings association's advanced approaches total risk-weighted assets are not commensurate with the national bank's or Federal savings association's credit, market, operational, or other risks, the OCC may require such a national bank or Federal savings association to calculate its advanced approaches total risk-weighted assets with any modifications provided by the OCC.

§ 3.124 Merger and acquisition transitional arrangements.

(a) *Mergers and acquisitions of companies without advanced systems.* If a national bank or Federal savings association merges with or acquires a company that does not calculate its risk-based capital requirements using advanced systems, the national bank or Federal savings association may use subpart D of this part to determine the risk-weighted asset amounts for the merged or acquired company's exposures for up to 24 months after the calendar quarter during which the merger or acquisition consummates. The OCC may extend this transition period for up to an additional 12 months. Within 90 days of consummating the merger or acquisition, the national bank or Federal savings association must submit to the OCC an implementation plan for using its advanced systems for the acquired company. During the period in which subpart D of this part applies to the merged or acquired company, any ALLL, net of allocated transfer risk reserves established pursuant to 12 U.S.C. 3904, associated with the merged or acquired company's exposures may be included in the acquiring national bank's or Federal savings association's tier 2 capital up to 1.25 percent of the acquired company's risk-weighted assets. All general allowances of the merged or acquired company must be excluded from the national bank's or Federal savings association's eligible credit reserves. In addition, the risk-weighted assets of the merged or acquired company are not included in the national bank's or Federal savings association's credit-risk-weighted assets but are included in total risk-weighted assets. If a national bank or Federal savings association relies on this paragraph (a), the national bank or Federal savings association must disclose publicly the amounts of risk-weighted assets and qualifying capital calculated under this subpart for the acquiring national bank or Federal savings association and under subpart D of this part for the acquired company.

(b) *Mergers and acquisitions of companies with advanced systems.* (1) If a national bank or Federal savings association merges with or acquires a company that calculates its risk-based capital requirements using advanced systems, the national bank or Federal savings association may use the acquired company's advanced systems to determine total risk-weighted assets for the merged or acquired company's exposures for up to 24 months after the calendar quarter during which the acquisition or merger consummates. The OCC may extend this transition period for up to an additional 12 months. Within 90 days of consummating the merger or acquisition, the national bank or Federal savings association must submit to the OCC an implementation plan for using its advanced systems for the merged or acquired company.

(2) If the acquiring national bank or Federal savings association is not subject to the advanced approaches in this subpart at the time of acquisition or merger, during the period when subpart D of this part applies to the acquiring national bank or Federal savings association, the ALLL associated with the

exposures of the merged or acquired company may not be directly included in tier 2 capital. Rather, any excess eligible credit reserves associated with the merged or acquired company's exposures may be included in the national bank's or Federal savings association's tier 2 capital up to 0.6 percent of the credit-risk-weighted assets associated with those exposures.

§§ 3.125–3.130 [Reserved]

RISK-WEIGHTED ASSETS FOR GENERAL CREDIT RISK

§ 3.131 Mechanics for calculating total wholesale and retail risk-weighted assets.

(a) *Overview.* A national bank or Federal savings association must calculate its total wholesale and retail risk-weighted asset amount in four distinct phases:

(1) Phase 1—categorization of exposures;

(2) Phase 2—assignment of wholesale obligors and exposures to rating grades and segmentation of retail exposures;

(3) Phase 3—assignment of risk parameters to wholesale exposures and segments of retail exposures; and

(4) Phase 4—calculation of risk-weighted asset amounts.

(b) *Phase 1—Categorization.* The national bank or Federal savings association must determine which of its exposures are wholesale exposures, retail exposures, securitization exposures, or equity exposures. The national bank or Federal savings association must categorize each retail exposure as a residential mortgage exposure, a QRE, or an other retail exposure. The national bank or Federal savings association must identify which wholesale exposures are HVCRE exposures, sovereign exposures, OTC derivative contracts, repo-style transactions, eligible margin loans, eligible purchased wholesale exposures, cleared transactions, default fund contributions, unsettled transactions to which § 3.136 applies, and eligible guarantees or eligible credit derivatives that are used as credit risk mitigants. The national bank or Federal savings association must identify any on-balance sheet asset that does not meet the definition of a wholesale, retail, equity, or securitization exposure, as well as any non-material portfolio of exposures described in paragraph (e)(4) of this section.

(c) *Phase 2—Assignment of wholesale obligors and exposures to rating grades and retail exposures to segments*—(1) *Assignment of wholesale obligors and exposures to rating grades.*

(i) The national bank or Federal savings association must assign each obligor of a wholesale exposure to a single obligor rating grade and must assign each wholesale exposure to which it does not directly assign an LGD estimate to a loss severity rating grade.

(ii) The national bank or Federal savings association must identify which of its wholesale obligors are in default.

(2) *Segmentation of retail exposures.* (i) The national bank or Federal savings association must group the retail exposures in each retail subcategory into segments that have homogeneous risk characteristics.

(ii) The national bank or Federal savings association must identify which of its retail exposures are in default. The national bank or Federal savings association must segment defaulted retail exposures separately from non-defaulted retail exposures.

(iii) If the national bank or Federal savings association determines the EAD for eligible margin loans using the approach in § 3.132(b), the national bank or Federal savings association must identify which of its retail exposures are eligible margin loans for which the national bank or Federal savings association uses this EAD approach and must segment such eligible margin loans separately from other retail exposures.

(3) *Eligible purchased wholesale exposures.* A national bank or Federal savings association may group its eligible purchased wholesale exposures into segments that have homogeneous risk characteristics. A national bank or Federal savings association must use the wholesale exposure formula in Table 1 of this section to determine the risk-based capital requirement for each segment of eligible purchased wholesale exposures.

(d) *Phase 3—Assignment of risk parameters to wholesale exposures and segments of retail exposures*—(1) *Quantification process.* Subject to the limitations in